This essay has two chapters. The first chapter develops a theory about the demand for mandatory disclosure when voluntary disclosure is forthcoming. If information can be disclosed voluntarily at a cost, a commitment to a law mandating disclosure over certain events increases social welfare, even absent productive uses of information. The efficient law takes the form of a threshold such that only unfavorable events are subject to mandatory disclosure. With single-peaked distributions, we establish that the mandatory disclosure threshold is below the mode, while the voluntary disclosure threshold is above the mode - events around the mode are not disclosed. For symmetric distributions, the market reaction to any voluntary disclosure is positive, while the reaction to mandatory disclosure or non-disclosure is negative. With normally-distributed uncertainty, mandatory disclosure increases with more precise interim information. We extend our main result in various environments where information has social value, e.g., investment, optimal risk-sharing, optimal liquidations and adverse selection in a lemons’ market. We also show that the main result is robust to various forms of disclosure cost specification.

The second chapter develops a theory of public enforcement of financial reporting regulation at market-level where enforcement intensity and market size are jointly determined. The model captures the stylized fact that costly enforcement by the regulator is a public good which can benefit firms accessing the capital market. The model features a unique equilibrium in which both enforcement intensity and market size are positively correlated with aggregate fundamental of the market. Lack of commitment by the regulator and lack of common knowledge of the aggregate fundamental among potential firms would jointly yield regulatory uncertainty and, therefore, sub-optimal enforcement intensity policy. The market is either under-sized and under-regulated or over-sized and over-regulated. Applying the model to an earnings management problem, it predicts that more effective internal control system or private enforcement mechanism is associated with less (and possibly under) public enforcement, and more informative accounting standard is associated with more (and possibly over) public enforcement. Accounting standard informativeness always increases market size but can be efficiency-reducing due to a reliability-relevance trade-off. Hence market-size is not a good indicator of efficiency.